

THE SCOTTISH ECONOMY DECLINE AND RESPONSE

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1 TRENDS IN THE SCOTTISH ECONOMY

RECENT TRENDS

“1986 was a difficult year for the Scottish economy”.⁽¹⁾

That is the official view, expressed in the *Scottish Economic Bulletin* in June 1987. Growth of 3.1% in Gross Domestic Product in 1985 was followed by little growth if any in 1986 with possibly some resumption in 1987. Excluding oil and gas, output in Scottish production and construction industries for 1986 was 2.9% down on 1985, with a further fall of 3.1% in the first quarter of 1987. The UK figures show an increase of 1.8% between 1985 and 1986, and 1% growth in the first quarter of 1987. The April 1987 New Earnings Survey suggests that average male earnings in Scotland had fallen back in 1986 to 97.0% of British levels from 98.6% in 1985.⁽²⁾

The Fraser of Allander Institute *Quarterly Economic Commentary* seems to concur with the official view:

“...the short-term outlook for the Scottish economy continues to be favourable. Output growth was expected to be greater in 1987 than in 1986 but will fall short of that achieved throughout the UK. Continued improvement in 1988 would largely depend on developments in the world economy and on the extent to which the UK economy avoids overheating and an accelerating rate of inflation.”⁽³⁾

Nevertheless, while the Institute notes that “prospects for employment were encouraging”⁽⁴⁾, unemployment remains stubbornly high. Seasonally adjusted unemployment (which excludes school leavers) has fallen from 14.1% in January 1987 to 13.2% in August. The fall of about 23,000 from January’s peak is dwarfed by the 326,000 who remain unemployed.⁽⁵⁾ Changes in statistical methods have helped reduce the totals. The Restart scheme and availability for work tests played a part in attenuating the rise in the figures in late 1986 and accentuating the fall in early 1987. Real unemployment remains massive and intractable.

It is thus extremely disappointing that what growth there has been in the UK economy should make so little difference to unemployment in Scotland. The South East of England shed 15% of its jobless in the year to August 1987. Scotland's proportionately greater problem was only reduced by 5%. The rate of decline of Scottish unemployment in the first half of 1987 was only about two-thirds that of the UK as a whole.⁽⁶⁾ The *Quarterly Economic Commentary* notes that:

"The extent to which the Scottish economy can lag behind developments elsewhere in the UK is clearly seen in recent data from the construction industry on housing starts which were nearly 17% down on the corresponding quarter in 1986 whereas in the UK they were 20% higher overall."⁽⁷⁾

Thus although Scottish GDP is expected to grow a little in 1987 and manufacturing output has recovered its 1979 level (still well below its 1975 peak), there seems little prospect of a return to anything like full employment in the Scottish economy.

LONGER TERM CHANGES

The Scottish economy has generally speaking never enjoyed the same success as most other areas of the UK in the post-war period. Up until 1960, even as the economy experienced mild 'boom' conditions, with the heavy industrial sector experiencing "relative buoyancy of orders, profitability and employment"⁽⁸⁾, the unemployment rate was usually twice the national average. Scotland's contribution to the National Income actually fell from 8.9% in 1948 to 8.7% in 1960.

The marked regional disparities of the thirties began to re-emerge in Scotland and elsewhere, as traditional heavy industries entered their period of almost terminal decline. These problems gave rise after 1960 to an extremely active and relatively well-funded regional policy. This may simply have been a recognition that centralised Keynesian demand management could not of itself maintain the full employment and low regional disparities of the late 40s and 50s. In theory the surplus labour in the disadvantaged regions was to be linked to foreign multinational companies looking for production sites. One advantage was that unemployment blackspots could be mopped up while the general level of unemployment was allowed to rise. The change to an active regional policy in 1960 could therefore be seen, perhaps cynically, as an attempt to maintain the Tory vote in the regions.⁽⁹⁾

Whatever the reasons, Scotland entered a period of sustained economic growth which narrowed the difference between Scotland and the rest of the country. However it can be seen from Table 1 that the margins of growth in Scotland's favour virtually disappeared after 1973. The troubled

Table 1: Gross Domestic Product: Growth of Aggregate Output and Output by Sector in Scotland 1963-1984
(constant prices %pa)

Period	Growth of Aggregate Output ¹		Growth of Sector in Scotland				
	Scotland	UK	Agriculture Forestry & Fishing	Production & Construction	Distribution Hotels & Catering & Repairs	Transport & Communi- cations	Other Services
1963-73	3.5	3.0	3.2	4.0	3.1	3.7	2.9
1973-84	0.6	0.5	1.4	-1.3	1.2	1.3	2.5
1973-79	0.8	0.7	-1.4	-1.0	1.5	1.8	2.8
1979-81	-1.8	-2.7	6.5	-5.5	-3.3	-1.2	2.2
1981-84	1.8	2.3	4.0	0.9	3.5	1.8	2.0

Source: Scottish Office, Scottish Economic Bulletin (quoted in N. Buxton, op.cit.)

¹ By far the greater part of the GDP of the Oil and Gas Industry is attributed to the Continental Shelf Region. In order, therefore to obtain valid comparisons between Scotland and the UK, class 13 of the 1980 Standard Industrial Classification has been omitted from the above estimates. This class includes mainland as well as Continental Shelf Region activity in the extraction of mineral oil and natural gas.

rise of the oil and gas sector did little to alleviate this. A diminution in the breadth of the 'active' component in regional policy, the beginnings of the international recession related to the oil price hike, and the multinationals' responses are at the root of the slowdown.

A comparison between the two periods, before and after the mid-seventies, shows the positive success of the 'active' period in sustaining economic growth. However, the concentration on large lumps of investment – like car and aluminium plants – may be seen as an inherent weakness, as many of these investments failed in the late 70s and early 80s. Regional policy has not been sufficiently supportive of its major projects.

The 'active' period also accentuated a change already under way in both the ownership and structure of Scottish industry, especially in manufacturing. Of all US companies established in the UK after 1945, one third were sited in Scotland. Between 1958 and 1968 overseas companies accounted for 30% of all new employment in new enterprises in Scotland. By 1975, only 41% of manufacturing employment in Scotland was controlled from within the country.⁽¹⁰⁾

In terms of structure the trend was for non-Scottish companies to move into the minerals, textiles, light engineering and electronics sectors. These changes continued into the 70s and early 80s and were accompanied by a slow decline in total manufacturing employment and a strong rise in service sector employment. The decline in manufacturing was accelerated into a collapse by the domestic depression in the UK after 1979. The rise in service sector employment was almost completely halted.

A long term trend towards service sector employment cannot be denied. But the question arises whether a service sector dominant in terms of output and employment can maintain full employment income, or whether it needs a major manufacturing sector to underpin it in terms of tradeable output.

The employment figures since 1979 tell a rather sorry story. Between 1979 and 1986 Scottish manufacturing lost nearly 190,000 jobs – nearly 30%. Agriculture, forestry and fishing lost 17,000, energy and water lost 21,000, and construction lost 15,000. Against losses of almost quarter of a million jobs, the service sector gained only 30,000.

Over the same period, 'employers and self-employed' rose by 45,000 while the total of 'employees in employment' fell by 210,000 to 1,892,000. Males in employment fell by 173,000 to 1,032,000. There are no figures for part-time males. Females in full-time employment fell by 36,000 to 861,000 while part-time women workers increased by 29,000 to 361,000. This has taken place during what the Government assures us is a period of necessary 'shake-out' and subsequent strong growth in the UK economy. There is no

clear evidence that enough growth will take place to create jobs for more than a modest proportion of those already 'shaken out' of work.

What then are the problems in Scotland? Two stand out above all others. Firstly, the trend to centralisation in the British economy, coupled to increased overseas control of Scottish industry and the lack of a comprehensive regional policy which would counteract the centripetal pull of the South East of England and the North of continental Europe. Secondly, and closely related, is the de-industrialisation of Scotland.

2 SCOTTISH RESPONSES

THE STANDING COMMISSION

One Scottish response to the changes of the last two years has been the establishment of an independent Standing Commission on the Scottish Economy. The Commission was launched on 18 November 1986. The decision to establish it had been taken at the Scottish Economic Summit convened jointly by Strathclyde Regional Council and the STUC on 1 July. Public support came from Summit participants ranging from churches to businessmen, local authorities to trade unions. Running on the lines of a parliamentary select committee, it was to present a case after taking evidence from a variety of organisations, institutions, individuals and experts. In the words of Sir Kenneth Alexander, previously chairman of the HIDB, principal of Stirling University and presently Chancellor of Aberdeen University, the Commission he was to chair would be "hungry for ideas, suggestions, information and research in any area relevant to its work."⁽¹¹⁾

What kind of initiative is this? And what solutions can it offer to the problems which are recognised by its very existence?

Some answers to these questions may be developed by looking at how and why the Standing Commission was set up, considering some of the historical and economic background, identifying the major participants and the interests which they represent, and tracing these strands through the main events of the past two years.

Press reaction to the July Summit had been largely favourable. A *Scotsman* editorial the next day proclaimed a:

"DEMONSTRATION OF SCOTTISH WILL

It worked.... That such a consensus could be constructed by a conference representing much of Scottish life was a substantial achievement which cannot be disregarded. In itself it defines, despite Government protestations to the contrary, the existence of a debilitating malaise as

Table 2: Changes in employment by industry: Scotland, 1979-1986

	1979	1980	1981	Sept 1981	1982	1983	1984	Sept 1984	1985	1986	thousands ¹ % change 1979-86
Employers and self-employed	160	154	149	—	164	179	185	—	200	205	+28
Employees in employment ²											
Total	2,102	2,082	2,002	1,985	1,950	1,899	1,901	1,904	1,906	1,892	-10
Males	1,205	1,186	1,128	1,113	1,090	1,060	1,043	1,053	1,043	1,032	-14
Females	897	896	874	872	860	839	858	851	862	861	-4
Part-time females	332	335	336	338	337	337	347	346	361	361	+9
Analysis by sector (1980 SIC)											
0 Agriculture, forestry, fishing ³	48	45	45	39	39	37	35	37	34	31	-35
1 Energy & water supply	72	74	73	73	72	68	65	65	59	51	-29
2-4 Manufacturing industries	604	564	510	502	477	444	434	434	433	416	-31
5 Construction	155	155	141	138	135	134	136	139	139	140	-10
6-9 Service Industries	1,224	1,244	1,233	1,234	1,228	1,216	1,231	1,229	1,241	1,254	+2
Analysis by industry classes (1980 SIC)											
01-03 Agriculture, forestry, fishing ³	48	45	45	39.1	39	37	35	36.7	34	31	-35
11-14 Fuel extraction, processing				44.2				39.5			
15-17 Other energy and water	72	74	73	28.9	72	68	65	25.7	59	51	-29
21-24 Metal manufacturing, ore other mineral extraction	82	77	67	42.7	63	55	53	32.2	53	52	-37
25-26 Chemicals, man-made fibres				24.1				20.1			
32 Mechanical engineering				77.1				69.2			
33-34, Office machinery, electrical engineering, instruments				62.5				62.4			
35 Motor vehicles and parts	258	239	215	11.2	204	195	189	6.8	187	181	-30
36 Other transport equipment				41.7				34.1			
31 Metal goods nes				18.7				15.1			
41-42 Food, drink & tobacco				87.1				73.1			
43-45 Textiles, leather, clothing				68.3				58.1			
46,48,49 Timber, rubber, plastics etc	265	248	229	30.0	209	194	192	28.0	193	184	-31
47 Paper, printing, publishing				38.9				34.3			
50 Construction	155	155	141	137.8	135	134	136	138.9	139	140	-10
61-63,67 Wholesale distrib., repairs				85.5				89.6			
66 Hotels and catering	197	201	193	107.1	200	188	193	103.7	193	194	-2
64-65 Retail distribution	194	194	191	190.2	184	183	186	186.3	182	178	-8
71-77 Transport				92.0				85.6			
79 Post, telecommunications	135	134	129	35.9	124	119	115	29.5	117	114	-16
81-85 Banking, finance, insurance	123	126	129	131.0	135	140	141	146.2	146	153	+24
91-92 Public administrat., defence ⁴	170	171	167	167.6	168	171	170	169.7	171	176	+4
93 Education				144.4				133.4			
95 Health, veterinary services	403	419	422	145.2	417	416	425	143.5	433	438	+9
94,96-98				134.0				142.1			

1. Changes rounded to nearest whole number.

2. At June except for September 1981 and 1984 Census of Employment figures. 1985 and 1986 are provisional figure.

3. From September 1981 excludes non-principal tenant farmers who are now counted as self-employed.

4. Excludes members of H.M. Forces.

5. Domestic servants are excluded. Locally engaged staff working in diplomatic and other overseas organisations are included.

Source: Scottish Office, *Scottish Economic Bulletin*

well as the belief that the means of affecting a cure are available.”⁽¹²⁾

However, a practical problem might arise if the Scottish Office withheld support. The Commission “could exist without the blessing of the Secretary of State but it could not survive the disdain of his senior officials.”⁽¹²⁾ But Malcolm Rifkind in a press statement said that the Summit “appears to have struck a positive and constructive vein” and he would listen to “sensible and realistic proposals to tackle our economic problems.”

Encouraged by the unanimity which they had discovered, a steering committee made up of Strathclyde Region, the STUC and the Scottish Council (Development & Industry) pressed ahead with putting the Standing Commission together. A number of well-known, influential people from a variety of backgrounds agreed to join.

Press response to the November launch of the Standing Commission was slightly more equivocal. The *Glasgow Herald* argued that the Commission might serve as a useful forum for ideas “if it succeeds in getting its act together and avoiding the political pitfalls” and concluded that “the result may or may not be a consensus in favour of policies to reverse the decline but the effort seems worth making.”⁽¹³⁾ Hardly a ringing endorsement. To the practical and political pitfalls, a cautionary historical dimension was added. Alf Young, writing in the *Herald*, found

“ALEXANDER FACING A CREDIBILITY OBSTACLE

....even the combination of Alexander, the practical economist, with formidable talents and time on his hands, the great and the good gathered around him, an annual budget of £50,000, and a collective determination to define our economic future, is no guarantee that the Standing Commission on the Scottish Economy will succeed where so many before it have failed.”⁽¹⁴⁾

This was a reference in particular to the Toothill Commission of twenty-five years earlier, which had the indulgence of an expansionist Tory government, directing car and aluminium plants into Scotland, “turning its back on traditional heavy industry”. But the Toothill prescription failed, it is generally agreed. The proof of that is unemployment “at levels which Toothill could only have conceived of in some apocalyptic nightmare”.⁽¹⁵⁾

The politics are different now, too. The only party ever to have gained more than half the votes in a General Election in Scotland was the Conservative Party, in 1955. But shortly after that it became apparent, most of all in regions like Scotland, that full employment was not going to remain an achievable objective. Ravenscraig and regional policy were ways in which the Conservatives hoped to hold Scotland. Today, the Tories are

not fighting to win British elections in Scotland, and the economic orthodoxy belongs to Margaret Thatcher, not Harold Macmillan. One of her first targets was British Steel, the loss-making nationalised giant, to be made profitable not by investment, but by rationalisation. Ravenscraig was under threat.

GARTCOSH AND THE STANDING COMMITTEE ON STEEL

The steel industry campaign was unique. A conference in Motherwell in June 1985, specifically to campaign for investment in Ravenscraig was attended by over 200, representing virtually every organisation in public life in Scotland. There was unanimous consensus that a £90m investment should be made in the coke ovens. It is interesting that such a specific act (investment in a particular part of a steelworks) should have been so important to such a wide and representative constituency.

A recall conference in August 1985 in response to the Gartcosh closure announcement signalled the campaign to save the steel mill, an integral component of the Ravenscraig complex. Strathclyde Region were heavily involved in the unofficial Standing Committee which had been set up. Rallies, marches, demonstrations and lobbies were organised. At the lobby of Parliament in November 1985 Michael Forsyth, now a Scottish Office minister, was the only wholehearted dissenter in a group of Scottish Tories who met the delegation. Hector Munro and Anna McCurley provided sterling support for the Gartcosh case.

In January 1986, during the Commons debate on closure, the (Conservative) chairman of the Select Committee on Trade and Industry made a significant intervention, asking the government to look again at the case. McCurley and Munro both voted against the government.

Malcolm Rifkind, on the other hand, abruptly elevated to Scottish Secretary after the Westland affair had airlifted George Younger to the relative safety of the Defence Ministry, refused to intervene in what he described as a commercial decision by British Steel.

Against a depressing background of falling oil prices and spiralling unemployment, Gartcosh was a bitter defeat. But as popular opposition to closure grew with each conference, demonstration and lobby, the broad representative consensus was more and more remarkable. Perhaps only the UCS work-in mobilised greater support in recent times. The Government's stock had never been lower. At the Regional elections held in May 1986, the Conservatives were hammered. By contrast, Labour improved on their already impressive gains in the District poll two years earlier. With half the population of Scotland, many of the most pressing economic and social problems, and with what appeared to be an overwhelming mandate, Strathclyde Labour politicians felt frustration at the poor response from

government to a series of specific crises in the Scottish economy.

Gartcosh was one. But from early 1986 there was no shortage of contenders for closure headlines: British Rail Engineering at Springburn; the shipbuilding industry – especially Ailsa at Troon and Govan Shipbuilders; the clothing and textiles industries due to a lack of Government support on an equal scale with European competitors; coal and oil-related industries as a result of the collapse in the price of oil.

THE STUC SETS AN AGENDA

At the STUC Congress in April 1986, a discussion document, *Scotland – A Strategy for the Future* was presented. The new General Secretary, Campbell Christie, indicated its origins in his speech:

“This document arises as a direct result of the Gartcosh closure. Despite the great concern in Scotland, despite the massive unity in favour of retention of the Gartcosh works, the Government has refused to listen”.⁽¹⁶⁾

The document was “not a solution, but an agenda” for discussion with “those who know how our economy can be set right”. Responses would be sought from affiliated unions and Trades Councils, but also crucially, from local authorities and other bodies representing Scottish opinion.

“What we will have to do is establish the consensus we had over Gartcosh in looking forward, in pressing forward, in creating the jobs we need here in Scotland. That is why I am pleased to welcome here the local authority representatives from the Regional Councils, from the District Councils, from the Scottish Council (Development & Industry), and from the churches in order to forge that way ahead.”⁽¹⁷⁾

Shortly after the May elections, Strathclyde Region called on Malcolm Rifkind to convene a conference on the Scottish economy. He refused. The Labour administration in Strathclyde was prepared to break with traditional conceptions of the role of a local authority. It was quickly decided, picking up from the Gartcosh campaign and good press reaction, to go ahead and convene a Summit in association with the STUC.

Both organisations had decided that the crisis was older and deeper than the single issues of particular closures, and required broader, more positive action.

3 THE ECONOMIC SUMMIT – THE WAY FORWARD?

DE-INDUSTRIALISATION

The Way Forward, the paper which was presented to the Summit in July 1986, detailed the immediate crisis in the Scottish economy, and the longer term problems.

“After almost a decade of closures, contraction and mounting unemployment, a growing body of Scottish opinion appears to share the view that a fresh approach is needed to solve Scotland’s deep-seated economic and industrial problems.”⁽¹⁸⁾

Some of the main themes of *Scotland – A Strategy for the Future* were picked up. The decline in manufacturing was taken as the main indicator of catastrophe. It was noted that service sector employment had risen, and in fact the total of employees in employment was up slightly (in 1985 from a low in 1983 – see Table 1) – but that this was due to an increase in part-time, low-paid jobs and made no impact on the still-growing unemployment problem. The Government has argued that its critics are obsessed with manufacturing employment, that the service sector is healthy and growing and that service jobs are every bit as good as manufacturing jobs. *The Way Forward* faced up to this head on.

“...it is important to note that there are serious problems in relying on the service sector to fill the gap left by the collapse of manufacturing.”

It was pointed out that there is a strong inter-relationship between the manufacturing and the service sectors. A big manufacturing closure affects suppliers and local services. Secondly, and quite crucially:

“...only a small proportion of services are ‘tradeable’, i.e. bring income into Scotland, rather than just recycling income within communities in Scotland.”

Further, much service employment is in the public sector, where spending restrictions, pressure on pay, deregulation, and privatisation threaten jobs and curb growth in hard-hit areas. For all these reasons:

“...it is important to be clear that economic recovery in Scotland will to a large extent depend on a healthy manufacturing sector, even if manufacturing employment may not itself grow substantially.”

But in economic reality Britain was suffering de-industrialisation. This was defined (quoting Cambridge economist Ajit Singh) as the absence of an “efficient” manufacturing sector, which:

“...currently as well as potentially not only satisfies the demands of consumers at home, but is also able to sell enough of its products to pay for the nation’s import requirements...at socially acceptable levels of output, employment and the exchange rate.”

In short, North Sea oil has bailed out the UK balance of payments but these revenues are no longer growing and will shortly begin to decline. "Invisible" traded services like tourism and banking can make only a limited contribution. If the relative decline of manufacturing continues this contribution will not be enough and a permanent trade deficit will result. In regional terms, a similar argument applies.

"For a healthy regional economy, attention needs to be given to strengthening the 'basic' or 'tradeable' sector to generate income, and in Scottish context this means manufacturing must not be neglected."

THE SUMMIT CONSENSUS

The Summit achieved broad agreement around the need for immediate action on the crisis industries, and also on some basic principles:

- "1. The economic and industrial situation in Scotland cannot be allowed to deteriorate any further.
- "2. Recovery cannot be relied on to come about unassisted, and the task of reconstruction must begin as of now.
- "3. Striking an appropriate balance in public policy between reliance on oil, services, the new high technology industries, and a modernised and re-invigorated manufacturing industry is important.
- "4. Fresh policies are required to help bridge the growing gap between those in work and those out of work."⁽¹⁹⁾

A Standing Commission comprising "a small number of people chosen for their familiarity with and experience of some of the areas of enquiry" would generate proposals on rebuilding the Scottish economy and stimulate constructive debate about the way forward. A variety of issues should be included in the Standing Commission's rolling programme of work: investment; research and development; skills and training; exports; energy; and policies to redistribute benefits of re-industrialisation and thus tackle low pay and unemployment. The Commission should make an interim report back to a reconvened Summit.

The Summit discussions were frank and fascinating, with participants drawing lessons from the past and agreeing on many fundamental points.⁽²⁰⁾

Hamish Morrison of the Scottish Council (Development & Industry) felt that "Scotland's full potential as an industrial economy has been inhibited...centralisation has been acting against Scotland's industrial vitality for half a century".⁽²¹⁾

One reason for the success of the Summit was the weight which representatives of private enterprise put behind the initiative. The "total lack of a coherent industrial policy" should be addressed by the Standing Commission, thought Ewan Marwick of the Association of Scottish Chambers of Commerce. John Davidson of the CBI said he "shared without reservation the concerns expressed in the document". He also referred to *Oceanspan*. This was a 1970 Scottish Council plan to make central Scotland, facing out to North America over the Atlantic, an "export oriented conversion economy...a new industrial doorway to Europe".⁽²²⁾ In June 1986 the CBI was proposing "Eurowestport" in Scotland linked to the forthcoming Channel Tunnel – an essentially similar idea. The Toothill report and the *West Central Scotland Plan* of 1974 were also spoken of.

The references to Toothill, *Oceanspan*, and "coherent industrial policy", the implicit corporatism which they represent, underline the crucial political differences between the Scottish business sector and Conservative politicians in the Scottish Office and in London. Ian Grieve of Babcock Power stated that management and workers had to make a joint effort. He suggested that perhaps we should "call ourselves Scotland PLC and work together". At that time Babcock was investing heavily in new plant in Renfrew. However, they also faced a severe shortage of orders – in large part precisely because the government operates no "coherent industrial policy". It is clear why such businessmen should favour planning for the regeneration of locally-owned industry within a corporative state framework. "Stop-go" in the late 50s caused problems to regional businesses; how much more so, now that we seem to have swapped it for permanent stop.

Yet it would be wrong to claim too much for the consensus. Babcock, for example, is not a Scottish company, despite its long association with Renfrew. It was recently taken over by a much smaller English concern – just one of the spate of mergers and takeovers mentioned earlier which have affected Scotland. The largest of these were Coats Patons/Vantona Viyella and the Guinness takeover of Distillers. In the eighteen months to January 1987, Inbucon the management consultants found that total capital employed by Scottish industrial and manufacturing companies had fallen by more than half, from £4½ bn to £2¼ bn.⁽²²⁾ Of course, Distillers had been headquartered in London for years. The very process of centralisation which the Summit identified as being so important, has over a long time substantially undermined the regional basis of the consensus.

The political base of the Conservative party in Scotland has suffered as a function of the reduced status of Scottish-owned industry and the mounting regional economic problem. While all political parties claim to represent the Scottish interest, it has become progressively less clear to their instinctive supporters in the professions, management and small

business that the Conservatives can do that. It was not just Tory MPs who voted against their own government on Gartcosh – there were significant defections from the ranks of local councillors and activists. But the leaders of the Scottish Conservative party could not offer, as they did in 1969, a party commission report in favour of an elected Assembly, albeit with only consultative powers. Malcolm Rifkind was once in favour of devolution but can now only defuse the demands of business for regional policies. It was to this end that the invitation to the Scottish Office to be represented at the Summit was declined.

The other elements in the national consensus were all in place at the Summit. Rev. Kenyon Wright, secretary of the Scottish Council of Churches felt that the Summit was a symptom of something broader, an opportunity to produce a “total view of Scotland as a nation in the world – economic, political, moral.” All the political parties and many academic institutions were represented. The local authority representatives drew attention to their record in economic development. They were not all municipal socialists. The Tory councillor for Troon, where the Ailsa shipyard was under threat, was obviously concerned with the shipbuilding industry, but had a wider view too. New investment had to be attracted he stated, but “the multinationals come and go – it is important for the SDA to attract the right kind of investment”. He hoped that individuals in his party would participate in the Standing Commission and that his party would support it.

4 THE CRISIS DEEPENS

GUINNESS, CATERPILLAR AND THE SCOTTISH ‘VOICE’

At the annual International Forum organised by the Scottish Council (Development & Industry) in November 1986, an important position paper was presented: *Performance and Problems of Scotland's Industrial Economy*. A personal view by Neil Buxton at that time deputy director of Glasgow College of Technology, it was also an authoritative and rigorous academic assessment of the Scottish economy which largely echoed the themes addressed at the Summit. Buxton's main conclusions were that the Scottish economy suffers from de-industrialisation and from the growth of centralised decision making. He felt that the problems he had identified could usefully be taken up by the Standing Commission, which represented “a powerful alliance of Scottish opinion”.⁽²⁴⁾

A few days later, the Standing Commission was launched. It was the end of 1986, with Scottish unemployment at 370,000. Just when it looked as though things couldn't get worse, a series of hammer blows hit the Scottish economy. The year which had begun with the loss of Gartcosh and continued with the closure of BREL and Ailsa ended with a welter of redundancy announcements. Guinness were rationalising whisky

production and the Black and White plant at Stepps was to go. Babcocks could no longer keep men on in the absence of orders. Scott Lithgow, along with most of the shipbuilding industry, faced the New Year with an empty order book and large redundancies. At Britoil's Glasgow headquarters the low oil price had worked its way back from the North Sea and staff were paid off. Burroughs announced the closure of their Cumbernauld electronics plant.

All sections of Scottish industry were in trouble. In January 1987, two interesting developments took place. The Department of Trade and Industry launched an investigation into the Guinness/Distillers merger and Scots businessman Sir Norman MacFarlane became chairman – but the fear was whether Guinness would keep Ernest Saunders' promise to set up the corporate headquarters in Edinburgh? And Caterpillar announced that they were closing their Uddingston factory just weeks after a major investment programme had been trumpeted by the beleaguered Secretary of State Malcolm Rifkind – to which the workers immediately responded by occupying the factory. These events confirmed fears which had been expressed at the Summit by all participants.

At a conference convened by Edinburgh District Council in January 1987, a wide representation of Scottish life came together to look at the lessons to be learned from the Guinness affair. Would Guinness keep its promise? What should be done to try to control mergers so that the Scottish economy did not suffer?

Professor Jack Shaw, executive director of Scottish Financial Enterprise, outlined a vision of a service based future where Scots could “export their personal skills technologically”. But he agreed with the general analysis of the problem: “Scottish based businesses are an endangered species”. And he called for a “crusade” to achieve the new Scotland.

“We have our own Scottish Office and our own Scottish Development Agency, and in Scotland as this Conference demonstrates, we do at least speak to each other to identify solutions to problems.”⁽²⁵⁾

While the STUC and Edinburgh District Council favoured pressure on Guinness to keep its promise, Professor Shaw thought it would be counter-productive to appear strident. Economic journalist Alf Young, another contributor to the conference, reflected this dissonance.

“There is no such thing as a Scottish voice. The Scottish lobby just doesn't exist. It is simply a chimera, and doesn't operate as a reality or an entity. Scotland didn't express any great concern at Distillers' inability to manage their whisky operations; nor that their old headquarters were in London; nor that most of the board were London based. There was no

united voice during either the Bells or Distillers takeover battles. Also, the Scottish financial community's perspective has always been international and does not gel neatly with the Scottish political community's commitment to the Scottish economy. Thus the perspectives of the Scottish 'lobby' are themselves divergent. It has never been a united forum speaking on Scotland's behalf. So it is going to be hard to build up a unified Scottish voice – on this occasion stimulated by Guinness' failure to meet Scottish aspirations – without first of all appearing to be threateningly vocal and then learning lessons for future action. It is heartening to see such a representative group as this Conference. The only comparison is the Scottish Council's Annual Forum.^{“(26)”}

Much of this may be soberingly realistic. Certainly there was no united voice during the takeover battles. And to say that the interest of the Scottish financial community “does not gel neatly” with that of the Scottish economy at once politely understates the distinction between financial and industrial capital; and gives some understanding of the political problem in Scotland. But apart from those who have faith in the Scottish Office, there are many Scottish voices all saying essentially the same things. This was clearer during the Caterpillar occupation.

Caterpillar illustrates the weakness of the increasing Scottish dependence on overseas-owned manufacturing plants. Much of what is true about Caterpillar is also true of newer inward investments. In the face of Japanese competition the American giant was having to cut capacity. But it was *easier* to pull out of Uddingston than its other European plants because there were no strings attached to the British investment. And since there were no higher corporate functions whatsoever at the factory, there were no deep roots in Scotland.

The Scottish reaction was unequivocal. Even Malcolm Rifkind praised the occupation as a “spirited and determined” effort to preserve employment which has “won wide support.” His criticism of Caterpillar was partly due to personal embarrassment, but also to shrewd political calculation. With the Scottish Tories at an all-time low in the polls and an election looming, it could have been suicidal not to line up with public outrage. Certainly the business community, particularly the supplier companies, wanted Government intervention. Again, lobbies of Parliament took place, and Conservative politicians lined up on the platforms to support the Caterpillar workers. But the Government did nothing, despite a range of options and the protestation of virtually the whole Scottish community.

SCOTLAND – A LAND FIT FOR PEOPLE

In this tense political atmosphere the STUC published, in April 1987,

Scotland – A Land Fit for People, the outcome of the consultation begun the previous year. This document was forward-looking and positive. The main proposal was a radical new policy framework for the future of Scotland's economy. But many elements of the strategy, it claimed, could be implemented without a change of Government.

The success of regional policy since the early sixties had been the large number of jobs created over a long period. The failure has been the progressive weakening of Scotland's industrial base. The original role of the Scottish Development Agency – stimulation of the indigenous manufacturing sector with public assistance and accountability – had to be restored:

“The SDA's direct investment budget needs to be greatly augmented. Its investment guidelines must be rewritten enabling it in sectors where growth is likely to provide: publicly accountable assistance and direction; loans or equity to companies which cannot get them from the private financial sector because of its narrow and short-sighted obsession with quick returns; and a vital link between the realities of competitive commercial life and the more abstract world of the planners.”^{“(27)”}

Recognising that inward investment is necessary but aware of the historic problems created, a new approach to multinationals was suggested. Multinationals have been welcomed on their own terms as providers of jobs. But Scotland (with access to UK and European markets, specific labour skills, a pleasant environment) has something to bargain with. In order to gain long term benefits from at least a proportion of inward investments, there should be:

“a flexible approach to negotiations on such questions as the location of R&D facilities and other higher corporate functions, and the development of technology transfer agreements”.

A Scottish takeovers watchdog was proposed, and a campaign to sell Scotland as a location for company headquarters. One of the areas which combines high tech manufacturing with valuable tradeable services is offshore technology. This expertise needs new markets abroad if it is to survive the decline of North Sea reserves. For this and many other sectors where small but good Scottish companies compete, a Scottish International Trading Agency was proposed, with offices in potential customer states, which could provide marketing on a commission basis.

At a local level, English experience with Enterprise Boards should be applied in Scotland. Despite the existence of the SDA, and because of its changing role, exemplified by increasing concentration on property marketing, there is much which can be done by councils to help local

enterprises meet demand for goods and services.

This adds up to an executive planning function for a Scottish Assembly. Without such powers, nothing can challenge the freedom of the markets to further damage the Scottish economy.

THE 1987 ELECTION AND THE SUMMER OF DISCONTENT

The Tories in Scotland fought a low key, defensive election, a damage limitation exercise. They ended with only 10 MPs to Labour's 50. Since the election, the unemployment figures have fallen back, but not as greatly as the UK fall, and the production industries' output has finally regained its 1979 level, all on the back of the consumer boom. However, the balance of trade, both Scottish and British, is worsening. More redundancies in traditional industries are offsetting the few new inward investments. Guinness has finally reneged on its promise of corporate headquarters, and Caterpillar has gone.

The traumatic experience of the Scottish economy over the past few years has not diverted the Government. During the summer, a radical right-wing programme has been pressed ahead. Along with policies on schools, housing, poll tax, local authorities, trade unions, all of which were decisively rejected by the Scottish electorate, comes yet another review of regional policy. The effect of the last review in 1984 is only just taking its toll. Then, many areas were removed from development status, regional development grants were cut from 22% to 15% of capital costs, and a limit of £10,000 per job created was applied. Regional policy expenditure has been cut back severely. The most likely effect of the review will be further restrictions designed ostensibly to target resources more efficiently, but in reality to cut total expenditure even further.

Potentially the most important single arm of regional policy, the Scottish Development Agency has spent a progressively more insignificant proportion of its budget on industrial investment in recent years due to rewriting of its investment guidelines after the 1979 election. The SDA has never been allowed to fulfill the main role it was conceived for in 1975. It has certainly been used as a means to channel public money into private companies, but the resources and political will have never been applied to make it a tool which could direct the economic development of the country.

The fact that it is needed at all is an indictment of the Scottish financial sector.

"Charlotte Square in Edinburgh is the fifth largest financial centre in Europe, but its links with indigenous industry are perhaps not always strong as they might be, and a large proportion of funds placed with it are invested overseas."⁽²⁸⁾

As Scottish manufacturing is increasingly owned and controlled by multinationals so the multinationals increasingly reap the remaining benefits of Scottish regional policy. Scottish industrialists are not likely to benefit from the review of regional policy.

Finally, the sudden realization by world stock markets that the USA has been running colossal budget and balance of payments deficits looks likely to cause at least a slowdown in the growth of world trade. Britain and more so Scotland, as open economies, could suffer more than most. Despite some recent inward investment announcements, the Scottish economy has taken further knocks with large redundancies at Babcock and Scott Lithgow.

5. THE STANDING COMMISSION

STRUCTURE AND SECRETARIAT

The structure of the Standing Commission has been evolved to fit the demands and constraints of the resources available. It was originally to have a dual purpose. Firstly, in the short term to do some lobbying on specific urgent issues. In the end this has not happened – due to teething troubles the hastily constructed special delegation really had no forum within which to develop. However, through a variety of traumatic events, the consensus has developed, perhaps hardened, and the longer term objective looks as though it can be achieved.

The Fraser of Allander Institute has taken on the role of secretariat. As reputable independent economic analysts their involvement adds to the already impressive academic credentials of the Commission. The setting up of working groups has given the Standing Commission a structure. When the Summit is reconvened with winter, these groups will make reports and recommendations. Specific events are being organised, like the recent oil-related industries conference, where participants included Shell UK and former Energy Minister Alick Buchanan-Smith.

INTERIM REPORT

While it is impossible to predict what the interim reports of the working groups will contain in detail, much of what will concern them has been discussed here.

The employment and manpower group is pulling together useful work which is being done in academic institutions on the labour market using 'job gap' calculations. This is being related to practical work which has been done by various agencies, for example, Strathclyde Region's *Jobs Plan*⁽²⁹⁾. The case for further administrative devolution of the MSC will be

considered in the light of STUC and Scottish Council proposals for greater Scottish and local control over training.⁽³⁰⁾

The trade issues group may also pick up similar STUC and Scottish Council proposals for some form of Scottish export body.⁽³¹⁾ Work done by the Scottish Council⁽³²⁾ suggests that Scotland has a relatively narrow export base, depending heavily on just two goods – computers and whisky. The thought is that the successful Locate in Scotland bureau may be replicated in reverse, in order to develop markets for a broader range of Scottish products.

The investment issues group will obviously concentrate on regional policy and the SDA, both of which are subject to Government review. The Standing Commission's proposals will be important inputs to these reviews.

SCOTTISH PROSPECT – WHAT CAN THE STANDING COMMISSION ACHIEVE?

What has already been achieved is a most remarkable degree of consensus about the nature of Scotland's economic problems, and a surprising willingness of the nation's experts – the Commissioners themselves, the extensive team of academic assessors, the working group participants and contributors – to get their hands dirty in trying to thrash out realistic ways forward.

The consensus implies that all concerned are in this together, that there are at least *some* mutually agreeable courses of action which can be taken. It follows, of course, that if there are solutions available, but they have not yet been adequately argued for and tried, there has been a failure on the part of the representatives of sections of society. It is precisely this failure that the Standing Commission seeks to redress by building a consensus.

One institution that has failed to address the economy is the Government itself. The Government is also refusing to become part of the consensus which the Standing Commission hopes to develop. This displays two problems: one for the Government and one for the Standing Commission. The Commission problem is twofold: first that official expertise and assistance would greatly help the project; and secondly, and much more important, that official approval has to be won before any of its schemes ever leave the drawing board.

That approval is unlikely to be forthcoming. The official case against will probably be that the Standing Commission is not representative. The CBI, represented at the Summit in July 1986, is not involved in the Standing Commission. The Scottish Office, which controls the Industry Department for Scotland, has refused to assist. The SDA is unable to appoint an

assessor. Pressure has been put on Government departments and business people not to participate.

The problem for the Government is easy to state: it has no mandate in Scotland. Right across the political spectrum in the country, up to (and including many members of) the Conservative Party there is broad opposition to the Government's handling of the economy. As John Davidson of the Scottish CBI put it colloquially, "things is no right".⁽³³⁾

The question of how this will be resolved has a complicated and by no means clear political answer.

By what criteria can the success of the Standing Commission be judged? For a start, there is the very fact that work has been done, that the Summit is reconvening. If the Standing Commission's success is to be defined in terms of changes in Government policy, then it is likely to have been a failure, at least for the present. If however, success is seen more realistically, as the provision of a genuine and authoritative Scottish voice on the economy, the Standing Commission looks set fair to achieve it.

The reconvened Summit will consider what are, of necessity, preliminary reports. Its recommendations are likely to be less important than the directions which are identified for future work. The long term prospects for the Standing Commission are good. The prospects for the Scottish economy look distinctly less promising.

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